



## IF WE WANT ENTREPRENEURS WE NEED TO PROVIDE THE RIGHT ENVIRONMENT

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### ABSTRACT

This paper takes the notion that entrepreneurs are good for economies and outlines what countries can do to encourage entrepreneurship. It suggests that citizen rights and freedom are directly related with entrepreneurial activity. Illegal entrepreneurial activity is mentioned as an outlet in repressive localities. It lists areas of the world where freedom exists and where it does not. Historical, current and country examples are given to illustrate these suppositions and the paper concludes with the role of entrepreneurship in world agribusiness.

**Key Words:** Entrepreneurs, country freedom index, innovation, ownership, agribusiness, product

### ENTREPRENEURSHIP AND FREEDOM

Entrepreneurs make things happen in an environment. They disrupt things. They make things change and they interpret change as opportunity. They consider opportunities, weigh the risks and then innovate to provide the public with a new product or service. They are, in fact, risk reducers. The gains for the local economy can be enormous. Yet far too few countries are prepared to allow unfettered consumer oriented innovation from their inhabitants, even in agriculture. This is generally because such developments would eventually change the pattern of power and result in loss of control. This loss happens in both the public sector where local government often feels threatened by change and in the private sector where existing monopolies prefer to squash competition. The paper attempts to outline what makes potential entrepreneurship a little more viable. It also mentions parts of the world where entrepreneurs find less encouraging environments and concludes with a few agribusiness areas where entrepreneurship is needed and is perhaps developing.

The French economist J.B.Say, said in 1800 that “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and yield” (Drucker). This is a pretty fair definition, if we add the word “innovation”. Entrepreneurs innovate, pure and simple. Thus McDonald’s became entrepreneurial using the managerial innovation of a basic American product. So did the British store Mark’s and Spencer. Other examples might be gunpowder, aspirin, clocks, condoms, Walmart, Leonardo de Vinci, Steve Jobs, Martin Luther, L.L. Bean, Bill Gates, Unilever, Yahoo, Henry Ford, Hain Celestial Foods, Godiva, DHL, Deutsche Bank, Bell Labs or the Land Grant University.

The group, odd though it may seem, has one thing besides innovation in common. There was an environment around them suitable for entrepreneurship and people being what they are, they took advantage of it. Some will seize any opportunity as did the entrepreneur in war torn Baghdad who makes and sells pizza to the troops. (WSJ April 2005) But others need more of their opportunity cloaked with a reasonable degree of freedom. Countries that discourage free press, and citizen protection, cannot expect much entrepreneurship, beyond that in criminal activities. These activities are well and flourishing in many if not most of the more repressive nations, and they are of course, not unknown in free societies.

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Entrepreneurs, like anyone else, appreciate the rights of ownership and the corresponding rewards. They need a legal system which allows them to keep at least a fair proportion of these rewards. They want the chance to develop opportunities and the resources to make and market them. They thrive with adequate capital at market rates and access to the communications systems necessary for supplier and customer contacts. They tend to be more common in democratic type of political system that encourages some form of capitalism and a progressive tax system. It is therefore difficult for a society to develop entrepreneurs if many of these factors are missing. And, indeed, many are, in the developing and indeed in parts of the developed world.

## **WORLD FREEDOM INDICES AND GROUP REACTIONS**

The Heritage Foundation, a somewhat conservative group, has bravely, if not foolhardily, classified over 150 countries for the past 11 years in an Economic Freedom Index using 10 factors in their country rankings ([www.heritage.org](http://www.heritage.org)). These factors include property rights, informal markets, degree of government intervention and banking availability which are perhaps the most influential of their 10 for budding entrepreneurs. In their 2005 index, some 11% of these countries are listed as free, 36% are mostly free, and thus the remaining 53% are therefore ranked as not very free. This majority includes practically all of Africa, the Middle East, most of Latin America and nearly all the countries east of Poland excluding Australia and New Zealand.

The more liberally inclined Freedom House has done somewhat similar work, ([www.freedomhouse.org](http://www.freedomhouse.org)), although it uses slightly different factors in its measurements. Their average ratings of freedom for 192 countries range from 1 to 7, where 1 is very free and 7 is definitively not. This range is divided into three groups; free, partly free and not free. In their list, 46 countries scored 1, with 15 at 1.5, 16 making 2 and 12 at 2.5, all under the rubric of free. The partly free list, ranging from 3 to 5 encompassed a further 54, leaving 49 labeled not free. Geographically, their selection is interestingly, much like the Heritage list.

Obviously, it is easy to criticize this sort of thing, but equally obviously, it can be useful. The main point, however, is not where the countries rank, but that it is easier to find entrepreneurship in some countries than others. North America, Western Europe, Australia and New Zealand are considered the most free on both lists and entrepreneurs are common. Burma, North Korea, Cuba, Libya, Haiti, Syria and Sudan are similarly considered the least free, so entrepreneurship has a more difficult time. Countries like Singapore, Chile, Japan, Thailand Barbados, Mauritius, Malta, Lithuania, Costa Rica, South Korea, Israel and South Africa rank fairly highly and certainly show entrepreneurial activity. Most of Africa, the Middle East and the various “stans”, carved out from the breakup of the USSR, do not. But there are obviously pockets of entrepreneurship in practically every country, particularly in specifically designated zones.

Perhaps the most unsatisfactory rankings for explaining lack of entrepreneurship are Russia, where entrepreneurship is potentially vibrant, China (which has these zones) and Pakistan. They rank low in suitable environment but entrepreneurship is anything but unknown there. The lists are useful, but have to be interpreted. Other things staying equal, entrepreneurs do better in free societies. But some groups at times tend to do better than others, even in less free environments. The dominance of Indians in small businesses in much of East and Southern Africa and parts of the Caribbean was not random. Nor was the explosion of Chinese restaurants in much of the developed world, followed rapidly by Indian, Thai, Mexican and other ethnic small business establishments. There is an historical dominance of Jewish people in financial institutions and the legal profession. We see an increasing role of Orientals in computers, technology and engineering in North American and European universities and firms. Are there then times, or situations, when entrepreneurs from one or more group tend to emerge? It would seem so.



## CENTRALIZED PLANNING STIFLES ENTREPRENEURSHIP

Many newer countries practice “centralized planning” stemming from their wish for central control. But planning, as we understand it, is anathema to an entrepreneurial society. It stifles rather than encourages entrepreneurship. Look at three historical examples. The aftermath of the French Revolution returned France to what it was before the revolution, an uncontrolled and uncontrollable bureaucracy, with excessive centralization in the heart of the revolution, Paris (Alexis de Tocqueville). The Russian Revolution produced much the same secrecy, corruption and unaccountability that the revolution was caused by, and there are ominous signs that Putin’s Russia is again becoming too centralized. (USA Today, May 9th 2005). Finally, Mao’s Cultural Revolution was probably the best sign that Animal Farm is still possible, in that some are more equal than others. It took some major changes in citizen’s rights in all three countries for entrepreneurship to reemerge.

Centralisation was followed to a great degree in much of post colonial Africa. This was regrettable because colonial Africa is a spectacular example of suppression of native entrepreneurship, apart from the chosen few. Entrepreneurship requires decentralization, as evidenced by the relatively enormous number of entrepreneurs, immigrants and native born alike, who thrive in America, (although America, interestingly was not ranked in the top 10 free countries in the 2005 Heritage Index). Countries that centralize are usually those that are classified by both Heritage and Freedom House as relatively un-free. Centralisation in both the private and public sectors tends to breed corruption and any entrepreneurship often ends up in illegal activities.

## TEACHING ENTREPRENEURSHIP

As we generally believe that legal entrepreneurs are good for a country, we need to consider whether entrepreneurship can be taught? There are enough courses and degrees around with “entrepreneurship” in their titles to suggest that it can. I’m not so sanguine, despite teaching in the University of Florida’s Entrepreneurial MBA programme. We can teach what’s useful for entrepreneurship to develop, but there’s something about an entrepreneur that probably can’t be taught. Most use intuitive rather than sensate thinking, for example. Most do not develop into firm managers and what we can and do teach is management. Entrepreneurs thrive on ideas and get excited in developing these ideas. Simply running a firm may be too mundane for them. Many successful ones have hired the managers for their firms rather than running them themselves.

We can, however, teach the essentials for firm start ups. These include a business plan, mission statement, clearly defined objectives, production and financial management, analysis, targeted marketing, business ethics, hiring, firing, keeping and training employees and the like. But this misses the essence of entrepreneurship. This is basic routine. Entrepreneurship isn’t. How do we teach the spark necessary for entrepreneurship? If we can, then we should be entrepreneurs ourselves. “...anyone who can face up to decision making can learn to be an entrepreneur....Entrepreneurship is behaviour rather than a personality trait.” (Drucker p.26)

## ENTREPRENEURSHIP AND WORLD AGRICULTURE

Let’s finally touch on the role of entrepreneurship in agriculture. If I am a farmer I want to get the land in good heart and pass that land down to my children, so that they can farm it better than I and look after me in my old age. I will be as entrepreneurial as I can to improve myself. But I can’t do this if I do not own the land or, as a tenant farmer, am not reimbursed fairly for improving the owner’s land. Even if I own the land, or have fair rents, I also need not to be gouged by monopolistic power in the public or private sector, for obtaining the right inputs and

selling my outputs at a fair price. The majority of farmers in the world do not have these protections. And in much of the developed world, small farmers cannot compete with the very large farms. So in these environments, where do the entrepreneurs see an opportunity?

In many countries, changing land ownership has and will bring startling results. Those that now own land will see opportunities. But simply changing land ownership for political purposes, without supplying the necessary markets and expertise will often have the reverse effect, as we have all seen in the incredibly rapid collapse of Zimbabwe agriculture. The legal protection of ownership may well be the single most important factor to correct to encourage local innovations. Why improve land if you don't own it, are not compensated for improvements, nor allowed to fence it.

Perhaps one of the most remarkable agricultural innovations in US farm history was McCormick's introduction of installment buying. This change allowed farmers to buy the machinery they needed to break the prairie. Yet the main agricultural innovations which allowed folks to leave the land and work elsewhere were the mould board plough and the horse collar. More modern ones include rotations, better seeds and animal breeding all concomitant with improved husbandry as agricultural education developed as a science. Now we have GMOs, highly efficient futures markets, big box supermarkets, 24 hour service, organic products, feed additives, improved chemicals, drugs and fertilizers and more arguments and disagreements about these modern innovations than we can shake a stick at. Productivity, environmental degradation and obesity increases have matched the cheap foods, helped by subsidies, that much of the world enjoys and we live longer today than ever before. So where should agricultural entrepreneurs go for innovations?

In the poorer parts of the world, better infrastructure, including sound storage, would go a long way to improve things. So would innovative markets for both relevant inputs and demand driven outputs, along with price incentives that were not affected by the subsidies of wealthy countries or the graft of local governments and money lenders. Cheaper power, whether human, animal or by combustion is another essential ingredient. So is water technology and availability. The future disagreements in this world will become more water sourced than ever before. All these things could be more innovative provided the right entrepreneurial environment exists.

Innovations in developed country agriculture will probably continue to be increasingly linked to health. We have and consume too much food and drink already. Food expenditure is a decreasing proportion of per capita disposable income (9% in USA and 40% of us obese). We show more cancer and heart disease today, though much of this increase is probably because of better detection. So niche products, properly produced and marketed will surely expand. The recent trend in Community Supported Agriculture (CSA) is illustrative. (USA Today May 12th 2005) Customers, usually town dwellers, buy shares in a farm's harvest, usually vegetables and fruit, and get what that farm produces during the year. So is the increased awareness of eating more healthily, growth in vegetarianism and the astonishingly popular South Beach and Adkins diets, where it is estimated that nearly 40% of Americans were on one of these during 2004. On the other side, super sized portions newly offered in junk food chains are highly popular as is light beer and diet sodas.

There are opportunities along all the marketing chain for agribusiness entrepreneurs as they see chances to meet or to expand specific demands by suppliers, producers, financiers, marketers, retailers and consumers throughout the world. We are rediscovering plant solutions to our health problems. We have done little currently to curb our reliance on high energy use in this industry. We still have much to do to adapt our technology for small farmers, processors, marketers and isolated areas with little population. We do not think cheap well, though it looks as though both China and India have interesting entrepreneurial examples in transportation and machinery.



This strange and essential phenomenon of entrepreneurship has a huge role to play in the world's agribusiness future. Hopefully it will be encouraged by investing in the right environment. But I am not hopeful that this will happen soon.

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